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## **INTRODUCTION**

Communities In Schools of Detroit, Inc. (CIS) entered into contract #BA-05-82001 with the Department of Human Services (DHS) to provide an after-school program for children in the school district. The children participated in activities such as computer lab, tutoring, recreational activities, group discussions, field trips, and family night activities. The contract totaled \$277,273.21 and covered the period July 1, 2005 through September 30, 2005. Communities In Schools of Detroit, Inc. was reimbursed for the actual costs incurred in providing these services, through submission of monthly billings to DHS.

## **SCOPE**

The Office of Internal Audit performed an audit of CIS to determine if their billings were accurate, and if the costs charged were allowable per the terms of the contract and properly supported by the accounting records and other documentation.

## **EXECUTIVE SUMMARY**

Based on our audit, we concluded that the Communities In Schools of Detroit, Inc. did not have its subcontracts approved by DHS and the contract budget detail incorrectly classified subcontractors' expense. CIS had not yet submitted its final billing for this contract. We calculated actual and allowable costs for this contract, which are reported in Schedule A. Our report recommends that the Field Operations Administration ensure that CIS subcontracts are pre-approved in the future, and that CIS properly classifies expenses billed to DHS. Our report also recommends that the Field Operations Administration instruct CIS to prepare its final billing to reflect actual, allowable costs for this contract. (See Schedule A.)

## **AGENCY RESPONSE**

Communities in Schools responded on January 24, 2006 that they are in general agreement with the findings and recommendations included in this report.

## **FINDINGS AND RECOMMENDATIONS**

### **Subcontracts not Approved by DHS**

1. CIS did not have prior written approval from the DHS Office of Contract and Rate Setting for its subcontracts with the lead agencies who provided services under this contract. The contract states: “The Contractor shall not assign this Agreement or enter into subcontracts to this Agreement with additional parties without obtaining prior written approval of the DHS.”

The CIS subcontracts provided for the subcontractors to be reimbursed based on a unit rate that covered most of their costs, and on a cost reimbursement method for local transportation and supplies. The DHS Office of Contracts and Rate Setting would not have approved this payment method, if prior approval had been requested. We reviewed the actual costs incurred by the subcontractors and determined that the actual costs incurred by the subcontractors were less than the amount that the subcontractors reported to CIS. CIS has not yet submitted its final billing to DHS. We included the actual costs that the subcontractors could document in our calculation of allowable costs for contractual services. (See Schedule A.)

In addition, we found that CIS incorrectly classified subcontractors’ costs for supplies and local transportation in the Supplies and Local Transportation line items on their billings to DHS. Since these costs were incurred by the subcontractors and reimbursed by CIS, these costs should have been included in the Contractual

Services line item on the CIS billing. We reclassified these expenses as Contractual Services. (See Schedule A.)

WE RECOMMEND that Field Operations Administration ensure that all CIS subcontracts are reviewed and approved by the DHS Office of Contracts and Rate Setting prior to service delivery.

WE ALSO RECOMMEND that the Field Operations Administration ensure that CIS properly classifies expenses billed in the correct line items.

WE FURTHER RECOMMEND that Field Operations Administration instruct CIS to prepare its final billing for this contract to reflect actual, allowable costs as reported in Schedule A of this report.

#### Salaries

2. CIS incurred salaries costs for this contract in excess of the budgeted amount. The contract allows them to exceed the budgeted amount by 5% or \$1,500, whichever is greater. Our calculation of allowable costs for the Salaries line item includes the additional \$1,500. (See Schedule A.)

#### Fringe Benefits

3. Our calculation of fringe benefits includes the applicable FICA tax and workers' compensation costs for the additional salaries expense reported in finding #2. In addition, we adjusted the amount for health and life insurance because CIS calculated these costs based on estimates. Actual costs were less than estimated. In addition, CIS included legal services as a fringe benefit, but legal services are not an allowable cost per the terms of the contract budget (See Schedule A.)

#### Miscellaneous Expense

4. CIS overstated its calculation of miscellaneous expense by \$48.54 because their actual indirect salaries and fringe costs were less than the amount used in their calculation. We reduced the allowable amount of the Miscellaneous line item by \$48.54

WE RECOMMEND that the Field Operations Administration instruct CIS to prepare a revised billing to include the actual, allowable costs incurred for this program. (See Schedule A.)

#### TANF Eligibility

5. CIS served both children who were eligible for Temporary Assistance to Needy Families (TANF) and those who were not eligible. Thirteen of 280 students (4.6%) we tested were not TANF eligible. The contract with DHS required that all children funded by the contract be TANF eligible. CIS provided matching funds for this program in excess of the 4.6%. Therefore, no adjustment is necessary for children served who were not TANF eligible.

Schedule A  
Communities in Schools of Detroit, Inc.  
Comparison of Budgeted and Actual Costs  
July 1, 2005 through September 30, 2005

Line Item	Budget	Audited Cost
Salaries	\$11,538.00	\$13,038.00
Fringes	2,633.63	1,849.64
Communication	999.90	651.72
Supplies	29,700.00	111.99
Local Transportation	24,001.68	-
Contractual Services	150,000.00	87,406.33
Miscellaneous	8,400.00	7,344.82
Total	\$227,273.21	\$110,402.50